MIMAP Bangladesh

Micro Impacts of Macroeconomic and Adjustment Policies in Bangladesh

Working Paper No. 3

Macroeconomic Developments in the 1990s

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Contents

List of Tables

List of Figures

Macroeconomic Developments in the 1990s

1. Introduction

The macroeconomic developments in the 1990s, characterized by varying and often contrasting trends in major indicators, reveal Bangladesh's continued susceptibility to economic vulnerability. Despite growth and a semblance of macroeconomic balance, a number of potential sources of instability persist which limit the state and pace of development in the country. Until the mid-1990s, several developments e.g. low rates of inflation, increasing levels of external reserves and improvements in the government's resource position created some degree of optimism regarding the success of macroeconomic stabilization despite symptoms of economic stagnation. These trends, however, were largely reversed in 1994/95. The prolonged political uncertainty and socioeconomic instability during the period also contributed to the turn around in macroeconomic trends. The process of recovery initiated afterwards was, however, affected by the floods of 1998. Despite the government's successful mitigation of short-term losses ensuring a much better macroeconomic performance than apprehended after the floods, several weaknesses continue to persist in macroeconomic balances.

1.1 Recent Growth Performance

The Bangladesh economy has grown by about 5 per cent per year since the mid-1990s compared to around 4 per cent on a long-term basis over the last two decades. This raises hopes for transition to a higher growth path for the economy (Table 1.1).[1] The GDP growth rate exceeded 5 per cent in 1996/97 and 1997/98. Despite the devastating floods of 1998,

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[1] The growth rates refer to the new GDP series of BBS with 1995/96 as the base year. The new national accounts follow the 1993 UN System of National Accounting (SNA 93). The macroeconomic indicators, presented in this chapter, are based on new national accounts and hence are not comparable with those based on the old GDP series with 1984/85 as the base. A comparison of GDP growth rates between the two series is provided in Table 1.1.

GDP growth was 4.9 per cent in 1998/99. The growth rate is projected at 5.47 per cent in 1999/00. A notable feature of the growth process during the 1990s is the fluctuating role of both agriculture and industrial sectors, particularly of the two major sub-sectors: crop and horticulture and manufacturing industry. The average growth rate of crop and horticulture was -0.43 per cent per annum during 1990/91 - 1994/95 which increased to 6.13 per cent in 1999/00. The growth in manufacturing, however, sharply decelerated from an average of 8.20 per cent during the first half of the 1990s to 4.25 per cent in 1999/00. The deceleration started in 1998/99 as an aftermath of the floods of 1998: declining from 8.54 per cent in 1997/98 to 3.19 per cent in 1998/99 (Table 1.2). In terms of composition, the slowdown in manufacturing growth in 1998/99 was dominated by small scale manufacturing: a decline from 6.77 per cent in 1997/98 to 0.75 per cent in 1998/99 while value added in large and medium scale manufacturing declined from 9.28 per cent to 4.19 per cent during the same period. In 1999/00, the growth in small scale manufacturing is estimated at 4.00 per cent while, for large and medium scale industries, the estimated growth is 4.35 per cent. The revival of manufacturing growth to its normal level is yet to occur and the recent slowdown in overall manufacturing growth is marked by a general deceleration across the entire sector.

Table 1.1

Annual growth rates of GDP and major sectors

(Per cent)

Year	GDP		Agriculture		Industry		Services	
	Old series	New series	Old series	New series	Old series	New series	Old series	New series
1990/91	3.40	3.34	1.61	2.23	4.33	4.57	4.58	3.48
1991/92	4.23	5.04	2.19	2.46	7.09	6.88	4.83	5.74
1992/93	4.48	4.57	1.81	2.53	7.98	7.80	5.30	4.37
1993/94	4.21	4.08	0.34	0.85	7.78	8.22	5.83	4.08
1994/95	4.45	4.93	-1.04	-0.30	8.35	9.86	6.94	5.46
1995/96	5.35	4.62	3.66	3.10	5.34	6.98	6.53	4.29
1996/97	5.88	5.39	6.44	6.00	3.81	5.80	6.34	4.91
1997/98	5.66	5.23	2.95	3.19	8.13	8.32	6.49	4.77
1998/99	5.21	4.88	4.25	4.77	4.14	4.92	5.70	4.90
1999/00[a]	6.03	5.47	4.97	6.43	5.53	5.55	5.92	4.97

a Provisional.

Note: The growth rates of the old series are expressed at constant 1984/85 prices while the new series growth rates are expressed at constant 1995/96 prices.

Source: *Preliminary Estimates of Gross Domestic Product 1999-2000 and Final Estimates of Gross Domestic Product 1998-99*, BBS April 2000.

Table 1.2

Sectoral growth rates of GDP

(Per cent, constant 1995/96 prices)

Sector	Average 1990/91-1994/95	1995/96	1996/97	1997/98	1998/99	1999/00[a]
Agriculture	1.55	3.10	6.00	3.19	4.77	6.43
Crops & horticulture	-0.43	1.74	6.44	1.05	3.16	6.13
Animal farming	2.38	2.51	2.58	2.64	2.69	2.74
Forest & related services	2.82	3.46	4.03	4.51	5.16	5.16
Fishing	7.86	7.39	7.60	8.98	9.96	9.50
Industry	7.47	6.98	5.80	8.32	4.92	5.55
Manufacturing	8.20	6.41	5.05	8.54	3.19	4.25
Construction	6.27	8.50	8.64	9.48	8.92	8.00
Services	4.63	4.29	4.91	4.77	4.90	4.97
GDP	4.39	4.62	5.39	5.23	4.88	5.47

a Provisional.

Source: *Preliminary Estimates of Gross Domestic Product 1999-2000 and Final Estimates of Gross Domestic Product 1998-99*, BBS April 2000.

Another important feature of the growth process in the 1990s is the continued dominance of the services sector as an important contributor to the overall growth of the economy. In terms of composition, except real estates, all other service sector industries have experienced steady growth in the last two years. The growth rate of construction sector has declined since 1997/98: from 9.48 per cent in 1997/98 to 8.92 per cent in 1998/99 and further to 8.00 per cent in 1999/00.

The recent growth performance of the economy is largely driven by the agriculture sector which has a potential source of vulnerability due to dependence of agricultural production on nature. An emerging concern in promoting steady growth in the country is the slow growth and continued failure over the last two years of the manufacturing sector to regain its momentum which was lost during the 1998 floods. Since then there has not taken place any significant structural changes in the economy and, contrary to expectations, the share of manufacturing in GDP reveals declining trends in recent years (Table 1.3). While agricultural production, particularly rice output, has increased steadily over the last three years creating favourable macroeconomic conditions and increased growth, sustaining the gains in the future would largely depend on success in bringing quick recovery and ensuring momentum of the manufacturing sector.

Table 1.3

Sectoral shares in GDP

(Per cent at constant 1995/96 prices)

Sector	1989/90	1994/95	1997/98	1998/99	1999/00[a]
Agriculture	29.51	26.00	25.34	25.28	24.50
of which:					
Crop & horticulture	19.33	15.42	14.59	14.33	13.85
Animal farming	3.73	3.42	3.19	3.12	2.92
Forestry & related activities	2.08	1.95	1.89	1.90	1.82
Fishing	4.37	5.21	5.67	5.93	5.91
Industry	20.77	24.27	25.71	25.69	24.70
of which:					
Manufacturing	12.52	15.15	15.88	15.60	14.81
Construction	6.01	6.63	7.39	7.67	7.54
Services	49.72	49.73	48.95	49.03	50.80
Total	100	100	100	100	100

a Provisional.

Source: *Preliminary Estimates of Gross Domestic Product 1999-2000 and Final Estimates of Gross Domestic Product 1998-99*, BBS April 2000.

1.2 Savings-Investment Performance

According to the new national income accounts, both savings and investment have consistently increased in the 1990s (Table 1.4). Gross domestic savings increased from 13 per cent of GDP in 1989/90 to about 18 per cent in 1999/00. During the same period, gross national savings increased from 18 per cent to 23 per cent of GDP. The investment - GDP ratio, on the other hand, has increased from 17 per cent in 1989/90 to 22 per cent in 1999/00.

Table 1.4

Savings-Investment behaviour

(as per cent of GDP)

	1989/ 90	1990/ 91	1991/ 92	1992/ 93	1993/ 94	1994/ 95	1995/ 96	1996/ 97	1887/ 98	1998/ 99	1999/ 00[c]
Investment	17.05	16.90	17.31	17.95	18.40	19.12	19.99	20.72	21.63	22.19	22.41
Private	9.81	10.27	10.33	11.47	11.76	12.38	13.58	13.70	15.26	15.47	15.68
Public	7.24	6.63	6.97	6.48	6.65	6.74	6.42	7.03	6.37	6.72	6.73
Gross domestic savings[a]	12.86	14.57	13.86	12.30	13.10	13.13	14.72	15.90	17.27	17.66	17.78
Gross national savings[b]	17.60	19.66	19.30	17.96	18.79	19.12	19.99	20.72	21.63	22.26	22.60

a Equals GDP at market prices minus consumption (private and general government).
b Equals gross domestic savings plus net factor income and net current transfers from abroad.
c Provisional

Source: *Preliminary Estimates of Gross Domestic Product 1999-2000 and Final Estimates of Gross Domestic Product 1998-99*, BBS April 2000.

Gross investment, in general, has been higher than gross domestic savings by 4-5 per cent of GDP. Foreign savings bridged this investment-savings gap. It may be pointed out here that the new estimates differ substantially from the old ones based on national accounts with 1984/85 as the base (Table 1.5).

An important macroeconomic concern in sustaining higher growth and increasing it to desired levels (e.g. 7-8 per cent per year) is to ensure increased level and quality of investment. According to the revised national income estimates, gross investment in the country increased from Tk. 217 billion in 1989/90 to Tk. 492 billion in 1999/00 at constant 1995/96 prices. During the same period, gross domestic savings increased from Tk125 billion

Table 1.5

Savings-Investment estimates of new and old national accounts

(Per cent of GDP)

	Gross investment		Gross domestic savings		Gross national savings	
	New series	Old series	New series	Old series	New series	Old series
1990/91	16.9	11.5	14.6	4.1	19.7	10.9
1991/92	17.3	12.1	13.9	5.8	19.3	13.0
1992/93	17.9	14.3	12.3	7.0	17.9	14.4
1993/94	18.4	15.4	13.1	7.4	18.8	14.9
1994/95	19.1	16.6	13.1	8.2	19.1	16.1
1995/96	20.0	17.0	14.7	7.5	20.0	14.3
1996/97	20.7	17.3	15.9	7.5	20.7	14.8
1997/98	21.6	17.8	17.3	8.6	21.6	14.2
1998/99	22.2	18.2	17.6	8.7	22.3	14.5
1999/00[a]	22.4	18.7	17.8	9.0	22.6	15.2

a Provisional

Source: BBS, *Statistical Yearbook of Bangladesh 1998*, and *Preliminary Estimates of Gross Domestic Product 1999-2000 and Final Estimates of Gross Domestic Product 1998-99*, BBS April 2000.

to Tk. 434 billion and gross national savings from Tk. 119 billion to Tk. 535 billion, both at constant 1995/96 prices. There exist, however, wide fluctuations in annual changes in both investment and savings which are, in some cases, difficult to reconcile with growth performance and other macro-aggregates (Table 1.6). The deceleration in recent growth of investment is, however, a major cause of concern: the growth rate declined from 12 per cent in 1997/98 to 10 per cent in 1998/99 and further to 8 per cent in 1999/00. If sectoral growth performance is taken as an indicator, a major factor in recent decline in investment growth may be attributed to a decline in manufacturing investment largely due to uncertainties associated with relatively longer term investment.

Table 1.6

Annual changes in savings and investment

(Per cent, constant 1995/96 prices)

	1990/ 91	1991/ 92	1992/ 93	1993/ 94	1994/ 95	1995/ 96	1996/ 97	1887/ 98	1998/ 99	1999/ 00[a]
Investment	1.42	4.44	9.52	9.35	9.11	10.60	11.08	12.06	9.85	8.19
Private	6.07	2.57	16.69	8.87	11.21	16.17	7.70	19.73	8.46	8.52
Public	-5.06	7.35	-1.13	10.19	5.46	0.40	18.25	-2.72	13.13	7.45
Gross domestic savings	22.21	28.03	-6.95	22.02	-10.64	3.62	34.50	26.00	11.46	11.60
Gross national savings	43.54	13.43	11.21	6.99	14.47	25.59	7.20	16.82	14.95	11.72

a Provisional

Source: *Preliminary Estimates of Gross Domestic Product 1999-2000 and Final Estimates of Gross Domestic Product 1998-99*, BBS April 2000.

Despite liberal and attractive policies, foreign investment is yet to make a significant contribution to the country. The net direct and portfolio investment was US $ 252 million in 1997/98 which declined by 24 per cent to US $ 192 million in 1998/99. The projection for 1999/00 is US $ 155 million recording a further fall of 19 per cent over the previous year. The net inflow of foreign investment in the EPZs is also relatively low: US $ 54 million in 1996/97, US $ 69 million in 1997/98, and US $ 71 million in 1998/99.[2]

Since 1998/99, savings and investment performance in the economy appears to have undergone a sharp downward trend. The national and domestic savings rates have declined along with the growth rate of investment. These trends are a matter of concern and warrant appropriate responses in macroeconomic management. The relatively high growth performance of the economy, largely due to the contribution of the agriculture sector, has helped to minimize the macroeconomic strains during the years. It is, however, important to identify the causes as to why the momentum in growth of savings and investment could not

[2] The figures include investments in joint ventures with local entrepreneurs.

be maintained despite acceleration in growth rate of the economy and implement effective measures to ensure sustained growth and economic stability.

2. Trends in External Sector

During the 1990s, economic reforms and associated policies significantly affected the external sector in Bangladesh. The share of foreign trade (exports and imports) in GDP increased from 17 per cent in 1989/90 to over 29 per cent in 1998/99 (Table 2.1). The economy is now more integrated with the global economy and the trend is likely to continue.

Table 2.1

Selected external sector indicators

(as per cent of GDP)

	1989/ 90	1990/ 91	1991/ 92	1992/ 93	1993/ 94	1994/ 95	1995/ 96	1996/ 97	1887/ 98	1998/ 99	1999/ 00[c]
Merchandise exports	5.0	5.5	6.4	7.4	7.5	9.2	9.5	10.5	11.7	11.7	12.1
Merchandise imports	12.4	11.3	11.3	12.7	12.4	15.4	16.9	16.9	17.1	17.8	17.9
Trade balance	-7.4	-5.8	-4.9	-5.3	-4.9	-6.2	-6.4	-6.4	-5.4	-6.1	-5.8
Current account balance	-5.2	-3.1	-1.8	-1.9	-1.2	-2.4	-4.0	-2.1	-1.1	-1.4	-1.1

a Provisional

Source: BBS, *Statistical Yearbook of Bangladesh 1998*, and *Preliminary Estimates of Gross Domestic Product 1999-2000 and Final Estimates of Gross Domestic Product 1998-99*, BBS April 2000.

Total merchandise exports of the country have increased consistently from 5 per cent of GDP in 1989/90 to around 12 per cent in 1998/99. Over the same period, imports have increased from 12 per cent to 18 per cent of GDP leaving a trade deficit of around 6 per cent. The current account deficit has been lower: around 1-2 per cent of GDP in most years. While the long-run trends do not appear to be a cause of concern, it is the short-run fluctuations and slow growth of external sector indicators along their desired directions that are important concerns for macroeconomic management in the country.

2.1 Export Performance

Bangladesh's exports, in US dollar terms, grew at an average rate of about 17 per cent per year from 1990/91 to 1997/98 (Table 2.2). Export growth, however, declined considerably to about 3 per cent in 1998/99 largely due to the impact of 1998 floods. Total exports is projected to grow at 9 per cent in 1999/00. Imports, on the other hand, increased at an annual average rate of 10 per cent during 1990/91 to 1997/98. The import growth was 6.6 per cent in 1998/99 and is expected to grow by 6.8 per cent in 1999/00. The trade deficit, which was US $ 2,352 million (5.4 per cent of GDP), increased to US $ 2,694 million (6.1 per cent of GDP) in 1998/99. The projected trade deficit is US $ 2,758 million (5.8 per cent of GDP) in 1999/00. Workers remittances have consistently increased during the 1990s: from US $ 761 million in 1989/90 to US $ 1706 million in 1998/99 and is expected at US $ 1950 million in 1999/00.

Table 2.2

Annual changes in selected external sector indicators

(Per cent)

	1990/ 91	1991/ 92	1992/ 93	1993/ 94	1994/ 95	1995/ 96	1996/ 97	1887/ 98	1998/ 99	1999/ 00[a]
Merchandise exports (US $)	12.7	16.0	19.6	6.3	37.1	11.8	14.0	16.8	2.9	9.1
Merchandise imports (US$)	-7.4	0.5	15.5	2.9	39.2	17.9	4.1	5.1	6.6	6.8
Workers remittances (US$)	0.4	11.0	11.3	15.4	9.8	1.8	21.2	6.8	8.3	14.3
Nominal exchange rate[b]	8.4	6.9	2.6	2.2	0.5	1.6	4.5	6.4	5.7	4.7
Real effective exchange rate[b,c]	-1.8	-6.1	-0.5	-0.6	1.3	-0.3	5.00	8.2	-1.2	...

a Provisional
b A positive change indicates depreciation of Taka
c Based on real effective exchange rate index (IMF) with base 1990=100. The monthly rates have been averaged to derive the annual index.

Source: Export Promotion Bureau.

The most significant recent development in the external sector is the deceleration of export growth in 1998/99 which is largely attributed to the dislocation caused by 1998 floods. While export growth is expected to increase to about 9 per cent in 1999/00, it is yet to reach its trend growth path. It may be noted that import demand is likely to pick up with the expected reactivation of the manufacturing sector and increase in the growth of manufacturing production. In order to keep trade deficit within a sustainable level, this would require a substantial increase in export growth. Under the circumstances, ensuring a viable balance of payments would emerge as a major challenge in macroeconomic management in the coming years.[3]

The trends in exports during the first nine months of 1999/00 fiscal (July 1999 - March 2000) suggest that total exports during the period grew by 8.4 per cent over the same period of the previous fiscal year (Table 2.3). During the period, exports of primary products have stagnated while exports of manufactured goods increased by 9 per cent. Among the primary products, exports of frozen food and raw jute have increased by 12 per cent and 19 per cent respectively while exports of tea declined by 58 per cent. Within the manufactured exports, some dynamism is shown by knitwear (20 per cent) and leather (16 per cent). The exports of jute goods have declined by 2 per cent. Readymade garments, which accounted for 56 per cent of total exports in 1998/99, registered a growth of 6 per cent. It is worthwhile to note that growth of readymade garments exports was 15 per cent in 1996/97, 27 per cent in 1997/98 and only 5 per cent in 1998/99 in dollar terms. In view of the importance of the sector in the country's export basket, the causes of deceleration in its export growth require in-depth analysis to devise future strategies. In recent years, knitwear exports have increased rapidly with an average growth of more than 20 per cent over the last three years. With supportive policies, knitwear has the potential to emerge as a thrust export sector with significant domestic value additions and linkages.

[3] The foreign exchange reserves in recent years are also under pressure. The total reserve was US $ 1635.9 million on 28 February 2000 compared to US $ 1646.8 million on 28 February 1999. This is equivalent to 2.6 months of imports, less than the safe margin of three months.

Table 2.3

Recent trends in exports

(million US $)

	1998/99	July – March 1998/99	July – March 1999/00	Percent change (July-March) 1999/00-1998/99
Primary products	422.6	317.16	318.74	0.5
Raw jute	71.6	47.77	52.18	9.2
Tea	38.6	36.36	15.21	-58.2
Frozen food	274.7	202.07	225.52	11.6
Others	37.7	30.96	25.83	-16.6
Manufactured goods	4889.6	3487.71	3805.95	9.1
Jute goods	303.4	211.66	208.32	-1.6
Leather	168.7	124.03	143.91	16.0
Readymade garments	2985.0	2125.63	2251.29	5.9
Knitwear	1035.0	735.84	884.08	20.2
Others	397.5	290.55	318.35	9.5
Total exports	5312.2	3804.87	4124.69	8.4

Source: Export Promotion Bureau.

One important concern in the country's export sector is the trend of increasing contribution of the volume index in incremental exports vis-a-vis the price index. The average price index of exports increased by 0.38 per cent while the volume index increased by 8.03 per cent during the July-March period of 1999/00 over the same period in 1998/99. In case of primary products, the price index declined by 4.93 per cent while the volume index grew by 5.43 per cent. The price and volume indexes for manufactured goods increased by 0.88 per cent and 8.24 per cent respectively. This indicates that export volume has to increasingly compensate for slow growth in prices of the country's exports in increasing export earnings. The recent deterioration of the country's terms of trade is also noteworthy: compared to 1997/98, the terms of trade declined by 4.6 per cent in 1998/99 and further 8.2 per cent in 1999/00.[4] Technological innovations to increase value addition and ensure competitive advantage of the export sector is a key to reverse the situation.

Bangladesh has used exchange rate depreciation as an export promotion tool actively in the 1990s. With reforms taking the country from an `administered' to a more `market

[4] With 1979/80 as base, the terms of trade is estimated at 100.1 in 1994/95, 99.5 in 1995/96, 101.2 in 1996/97, 101.7 in 1997/98, 97.0 in 1998/99 and 89.0 in 1999/00. Source: Planning Commission.

determined' exchange rate regime, a policy of creeping devaluation has been pursued to maintain exchange rate flexibility and export competitiveness. The real effective exchange rate (REER), however, suggests appreciation of Taka during most of the period of the 1990s despite nominal depreciations (Table 2.2). Significant depreciation in real terms is observed during 1996/97 and 1997/98. Available evidence, however, does not provide any strong links between movements in REER and export growth. The country's export competitiveness appears to be rooted more in micro-level competitiveness, structural factors and global dynamics than on exchange rate considerations.

2.2 Import Performance

In 1998/99, the growth in imports was 6.6 per cent in US dollars compared to 5.1 per cent in 1997/98 and 4.1 per cent in 1996/97. These growth rates followed very high growth of imports in previous two years: 39 per cent in 1994/95 and 18 per cent in 1995/96. The composition of imports in recent years reveals some contrasting trends (Table 2.4). During 1998/99, imports of cereals (rice and wheat) increased to more than 12 per cent of total imports compared to 5 per cent in 1997/98. The projected import of cereals is 4 per cent of

Table 2.4

Composition of imports

(Value in million US $)

	1997/98		1998/99		1999/00[a]	
	Value	Per cent	Value	Per cent	Value	Per cent
Major primary goods[b]	809	10.8	1448	18.1	925	10.8
of which: rice & wheat	369	4.9	997	12.4	335	3.9
Major intermediate goods[c]	1146	15.2	1104	13.8	1310	15.3
of which:						
Cement	152	2.0	105	1.3	80	0.9
Yarn	327	4.4	283	3.5	320	3.7
Capital goods	2072	27.5	1967	24.6	2200	25.7
Others[d]	3497	46.5	3497	43.5	4131	48.2
Total imports	7524	100	8018	100	8566	100

a Provisional
b Also include oilseeds, crude petroleum and raw cotton.
c Also include edible oil, petroleum products, fertilizer and staple fibres.
d Include consumer and other intermediate goods not shown separately.

Source: Bangladesh Bank.

total imports in 1999/00. A major aspect of the structural change, however, is the decline in share of capital goods in total imports from 27.5 per cent in 1997/98 to 24.6 per cent in 1998/99. The absolute value of capital goods import also declined by about 5 per cent: from US $ 2072 million in 1997/98 to US $ 1969 million in 1998/99.

An indication of trends in the recent structure of imports can be given with the information on LCs opened and settled (Table 2.5). A comparison of the LCs opened during the period of July-January 1999/00 with the corresponding period of 1998/99 indicates that total value declined by 0.6 per cent from US $ 4406 million in 1998/99 to US $ 4378 million in 1999/00. The LCs opened during 1988/99, however, included huge amount of foodgrains (rice and wheat): US $ 871 million in 1998/99 compared to US $ 105 million in 1999/00. If foodgrains are excluded, the value of total LCs opened during 1999/00 is US $ 4273 million compared to US $ 3535 million in 1998/99 -- an increase of 21 per cent. Over the two periods, LCs for capital machinery increased by 12 per cent (for garments increased by 38 per cent and for textiles declined by 1.4 per cent) and for machinery for miscellaneous industry by 12 per cent. The LCs for industrial raw materials increased by 16 per cent and for textile fabrics by 28 per cent. The increase in LCs for garment machinery and textile fabrics indicates positive developments in the garments sector. The LCs for petroleum and petroleum products increased by 77 per cent which is largely due to significant increase in petroleum prices in the world market.

Table 2.5

Structure of imports in terms of LCs opened and settled

(Value in million US $)

	LCs opened: July - January			LCs settled: July-January		
	1999/00	1998/99	% change	1999/00	1998/99	% change
Consumer goods	297.99	1047.94	-71.6	350.44	796.57	-56.0
of which: rice & wheat	104.83	870.66	-88.0	155.22	601.72	-74.2
Intermediate goods	443.43	340.31	30.3	432.64	341.93	26.5
Industrial raw materials	1969.20	1705.13	15.5	1854.79	1741.64	6.5
of which: textile fabrics (B/B & other)	1170.06	914.20	28.0	1103.66	997.56	10.6
Capital machinery	214.86	191.53	12.2	199.16	184.75	7.8
of which: textile machinery	47.77	48.45	-1.4	48.88	50.49	-3.2
garment machinery	41.90	30.42	37.7	32.15	30.86	4.2
Machinery for misc. industry	263.09	234.52	12.2	250.85	247.99	1.2
Petroleum & petroleum products	362.80	204.82	77.1	291.70	240.31	21.4
Others	826.38	681.51	21.3	759.84	555.44	36.8
Total	4377.75	4405.76	-0.6	4139.42	4108.63	0.8

Source: Bangladesh Bank.

The LCs settled during the period suggest 0.8 per cent increase in the value of imports during July - January 1999/00 over the corresponding period of 1998/99. A significant decline in the case of consumer goods is noted which is due to foodgrains (rice and wheat). If foodgrains are excluded, the increase in imports of other consumer goods is 0.2 per cent: from US $ 194.85 million in 1998/99 to 195.22 million in 1999/00. The increase in imports of intermediate goods is significant at 27 per cent as well as for others (items for commercial and industrial sectors) which is 37 per cent. The growth in imports of industrial raw materials, as per LCs settled, is 7 per cent while that of capital machinery is 8 per cent. The total value of outstanding LCs at the end of January 2000 is US $ 2380 million. The above trends indicate that import demand is likely to pick up during the rest of the period of the fiscal year with positive impact on manufacturing sector outputs.

2.3 Workers Remittances

In US dollar terms, the growth in workers remittances was 8.3 per cent in 1998/99 compared to 6.8 per cent in 1997/98 and 21.2 per cent in 1996/97 (Table 1.8). During July -

January 1999/00, total remittances was US $ 1125 million compared to US $ 964 million during the same period of the previous fiscal year -- a growth of nearly 17 per cent.

2.4 Major Concerns

Recent trends in the external sector suggest that several key indicators are yet to recover fully from the downturn experienced in 1998/99. In particular, export growth still remains below its trend. The major export item e.g. readymade garments, which played the key role in past robust growth of the export sector, has shown signs of tapering off in growth performance. This calls for restructuring of readymade garment exports to take advantage of the emerging changes in the global market and establish competitive edge for the sector. The recent dynamism of knitwear exports requires comprehensive policy support to stimulate its competitive strength. Within the globalization strategy, two important elements in dynamic restructuring need specific policy attention: promotion of micro-level competitiveness and success in attracting increased flow of foreign direct investment.

The real exchange rate appreciation is basically a short-term problem affecting Bangladesh's export competitiveness. While nominal depreciation of Taka is necessary to ensure competitiveness vis-a-vis the major trade competitors in the export market, it also affects the relative profitability of the country's import dependent capital goods sector. Hence a more product strategy to promote exports could entail the pursuit of an import neutral depreciation e.g. currency depreciation accompanied by tariff reductions so as to leave import prices of capital goods unchanged. From a long term perspective, however, Bangladesh's export competitiveness needs to be rooted in micro-level competitiveness e.g. through productivity growth and technological upgradation. This requires improvement in the efficacy of the financial sector to enable the export industries to invest and strive for productivity improvements and build competitive strengths. The efforts also need to address the problems of key infrastructure sectors to improve the delivery capacity of the country's exportables.

In view of increasing globalization, success in export promotion of Bangladesh will largely be conditioned by its ability to integrate into the global economy. A significant mechanism of ensuring entry into global markets is through incorporation into international networks of trade and production which can be facilitated by inflow of foreign direct investment (FDI). The inflow of FDI is, however, dismally low at present. The design of policies that creates a favourable foreign investment climate and facilitates Bangladesh's participation in the global network of production and trade needs greater attention.

3. Future Growth Prospects

The present macroeconomic situation of the country demonstrates two broad concerns: first, fragility and low performance of several macroeconomic indicators as reflected in slow growth of investment, manufacturing output and exports; and second, underlying constraints that relate to longer run issues of efficient resource allocation, accelerated growth, and sustainability of the growth process.

The average growth rate of GDP over the last five years has been higher by about 1 percentage point compared to the first half of the 1990s: 5.1 per cent per year during 1996-2000 as against 4.4 per cent in 1991-1995. This, however, indicates a moderate success since the economy needs to grow by at least 7-8 per cent in order to create a desirable impact on social development and poverty reduction. The success of macroeconomic management is ultimately judged by its impact on the growth process and its capability to promote social goals. The economy in the past also had episodes of higher growth compared to the trend level. But such growth rates were not sustainable and involved high fiscal deficit with pressures on inflation and external balances. With gross inefficiencies in resource utilization, the economy failed to realize its full growth potential. Low levels of investment and economic activity often created a semblance of macroeconomic stability but the transition to a higher growth path remained elusive.

Realization of higher growth is essential for Bangladesh to make a significant impact on the poor and raise their quality of life. There seems to exist a broad consensus that a growth rate of 5-6 per cent is not an indicator of satisfactory performance of the economy. At present, the Bangladesh economy has reached a stage that could very well yield a growth rate of 7 per cent and above on a sustained basis, provided `right' policies are in place.

One key question is whether the required resources are available to support such a path of growth. The gross domestic savings rate is around 18 per cent of GDP but could go up further by 2-3 per cent with sustained domestic savings mobilization efforts, fiscal reforms, and measures to improve the performance of public sector enterprises and reduce current account deficit. The current investment rate is 22 per cent of GDP and the excess of investment over domestic savings is financed through net foreign capital inflows. With reforms to put the economy in a strong position to attract foreign investment and measures for foreign direct investment in infrastructure and other key areas, Bangladesh could target net foreign investment flows of about US $ 2-3 billion per year which could contribute to raising our investment rate by about 4 per cent of GDP. Achieving investment rates of 28-30 per cent of GDP could support a growth rate of 7 per cent or more even at the current level of efficiency in capital utilization.

The sustainability of the higher growth path, however, would require actions on several fronts e.g. macroeconomic management that ensures stable internal and external balances, removal of infrastructural bottlenecks, and ensuring socio-political stability to provide efficient and consistent signals to the economic agents. For the purpose, the pursuit of the reform process and ensuring credibility to the reform measures are necessary to consolidate the gains achieved during the 1990s. With the revolution in information technology in transforming the global economic structure, Bangladesh needs to contemplate a `second generation' of reforms in the context of problems and opportunities for growth in the coming decade. These reforms should aim to acquire technological knowledge and innovations in selected areas and encourage the entrepreneurs to exploit full opportunities of the global economy. The area of service exports, for instance, provides a significant avenue for directing necessary reforms. With availability of a huge labour force, skilled and knowledge-based services could emerge as a remarkable niche for Bangladesh to export. The global economy offers a wide range of opportunities for Bangladesh to export information technology and other white collar services. What is central, however, to exploit these opportunities is the development of telecommunications infrastructure and creation of institutions for producing the skilled manpower with capacity to generate strong impacts in thrust areas.

Figure 1

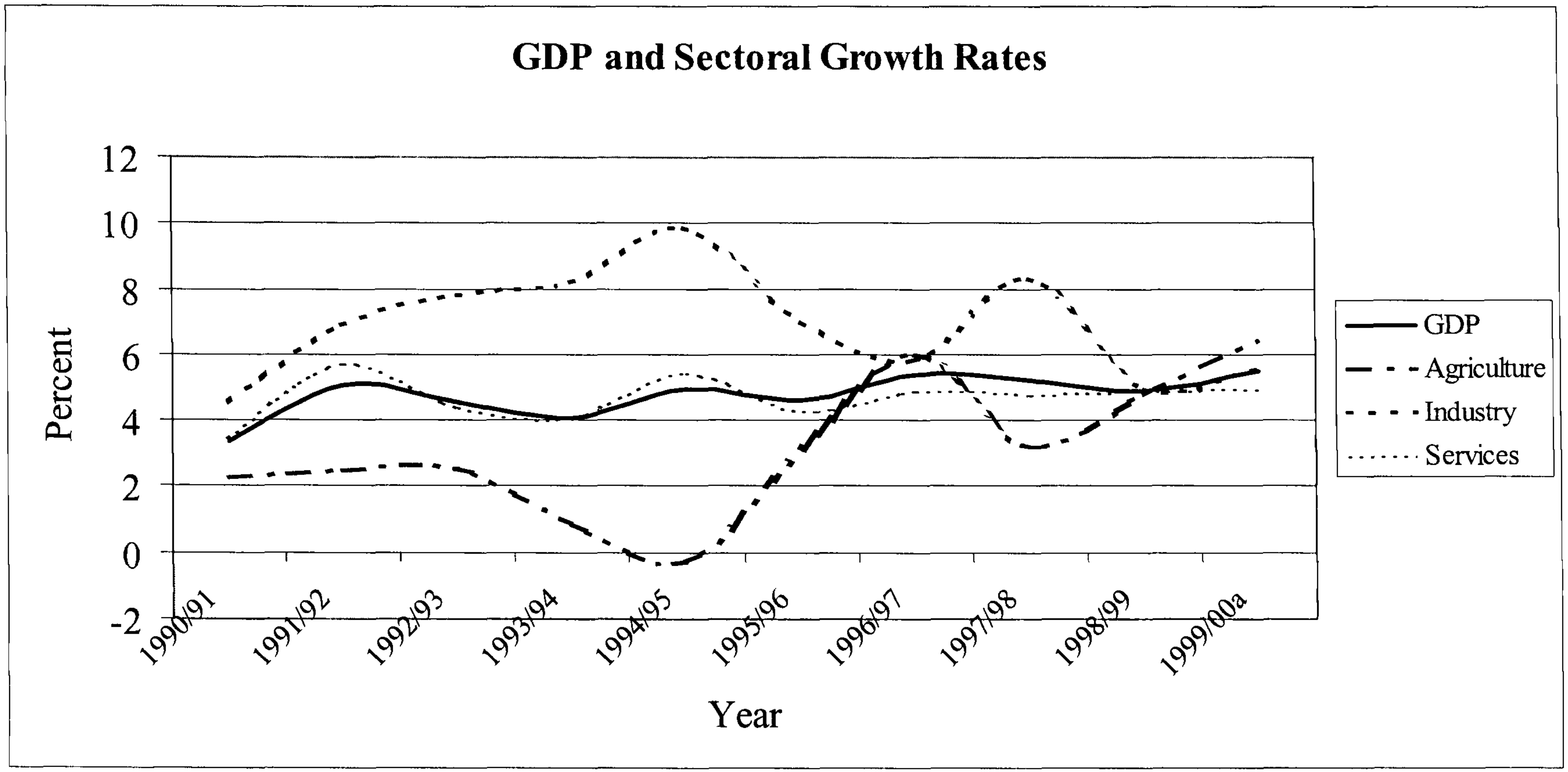

GDP and Sectoral Growth Rates
12
10
8
6
4
2
0
-2
Percent
1990/91
1991/92
1992/93
1993/94
1994/95
1995/96
1996/97
1997/98
1998/99
1999/00a
Year
GDP
Agriculture
Industry
Services

Figure 2

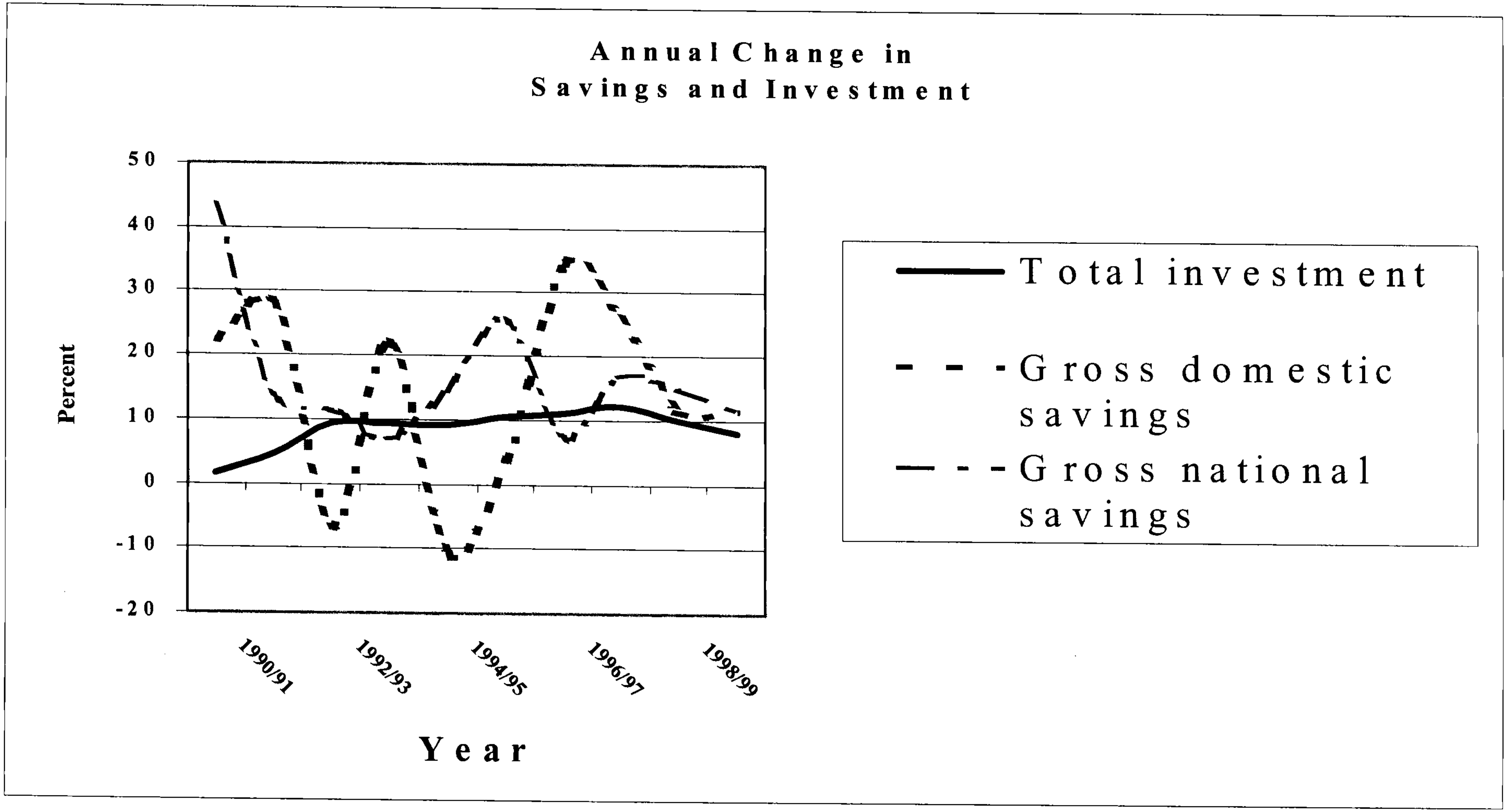

Annual Change in
Savings and Investment
50
40
30
20
10
0
-10
-20
Percent
1990/91
1992/93
1994/95
1996/97
1998/99
Year
Total investment
Gross domestic savings
Gross national savings

Figure 3

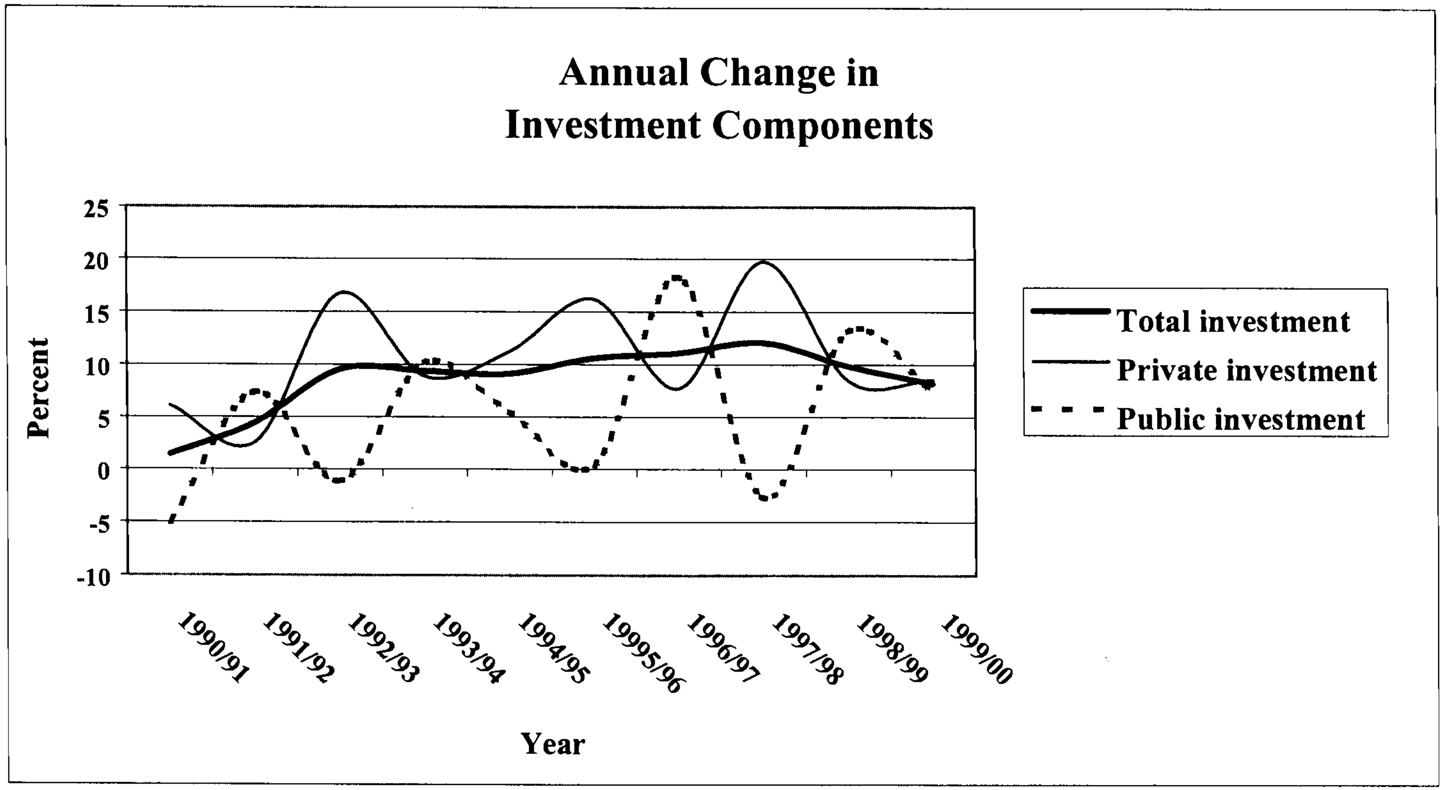
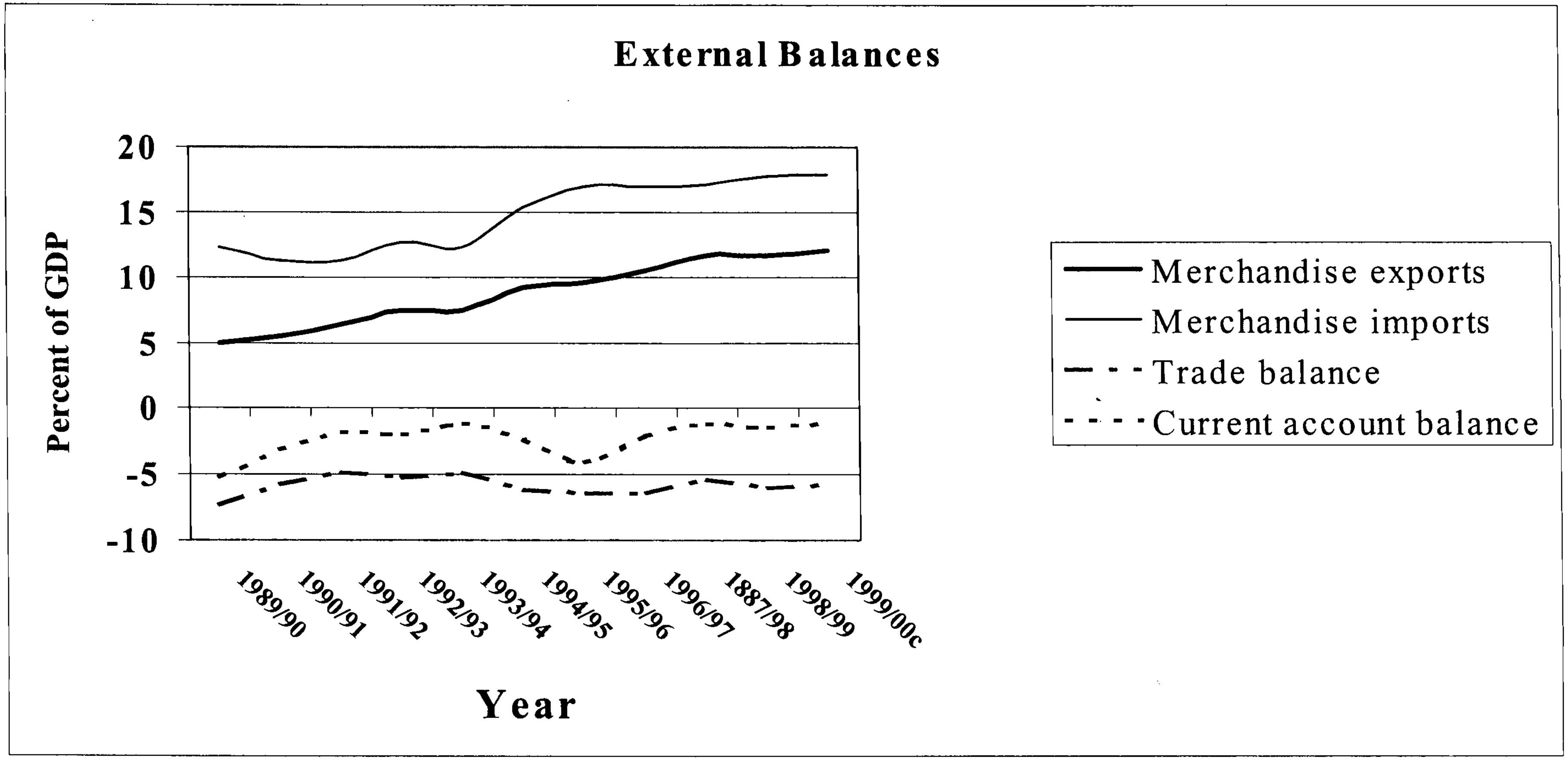

Annual Change in
Investment Components
Percent
25
20
15
10
5
0
-5
-10
1990/91
1991/92
1992/93
1993/94
1994/95
19995/96
1996/97
1997/98
1998/99
1999/00
Year
Total investment
Private investment
Public investment

Figure 4


External Balances
20
15
10
5
0
-5
-10
Percent of GDP
1989/90
1990/91
1991/92
1992/93
1993/94
1994/95
1995/96
1996/97
1887/98
1998/99
1999/00c
Year
Merchandise exports
Merchandise imports
Trade balance
Current account balance